Board of Directors
Eleventh Annual Study
February 1984

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KORN/FERRY INTERNATIONAL

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Introduction

For 11 consecutive years, Korn/Ferry International has conducted a survey of the 1,000 largest U.S. corporations for the purpose of understanding and imparting to the business community significant trends and changes that are taking place within the board room.

Over the past decade our studies have shown that major structural changes have taken place at the board level. Korn/Ferry's most recent survey, however, indicates that what we termed the era of structural change has ended. A new board, composed largely of outside senior executives with strong operating experience, has taken the place of the rubber-stamp board.

Today, outside directors constitute the majority on most boards, and they are actively participating in a range of areas from management succession to long-term strategic planning. The new, restructured boards are stronger and more effective than ever.

This is an about-face from a time when board members served for reasons of prestige and saw their role primarily as one of support and gentle counsel for the strategies and goals of the CEO.

Without question, there is growing recognition by outside directors and CEOs that together they can pool the collective experience and intelligence of this newly structured board to benefit the company. Boards are also taking fuller advantage of the expanding committee system. In particular, the nominating committee is being cited increasingly for its participation in the selection of senior management positions and board appointees.

A Shortage of Directors

Surely, a truly independent board is an idea whose time has come. But it comes at a time, unfortunately, when there simply aren't enough qualified directors to go around. Consider the following:

- The pool of executives in the most sought-after age group, 50 to 65 years old, is severely limited because of the nation's demographic profile.
- Corporations are seeking individuals with much more specific experience.

- Pressures from various interest groups have made directors increasingly subject to criticism and attack, causing qualified directors to become reluctant to accept a new board position.
- Time demands continue to be a major burden. Respondents to our study reported that 70 percent of the directors who declined an invitation to sit on their boards cited time commitments as the primary reason.

Building a Balanced Board

Corporations not only have a smaller pool of top level directors to draw from, but they also have become much more selective. Increasingly, corporations are planning their board structure as meticulously as their five-year strategic plans. They are building balanced boards made up largely of CEOs and COOs from other companies whose background gives them special battle-tested expertise in areas such as high technology; mergers, acquisitions and divestitures; energy; marketing; and public or international affairs. They also want top level representation from other professions such as government and education. More and more, professional credentials outweigh sheer personal compatibility.

Tapping Young Stars and Proven Veterans

To bridge the age gap, companies, especially those in the billion dollar group, are drawing more heavily on retired executives from other corporations. But if they are to fill their directorships through the end of the century, they will have to tap the ranks of younger executive stars who can bring to boards a diversity of backgrounds and the reactions of generations steeped in the fast-evolving technologies of the 80s.

In fact, to meet their corporate governance goals, companies will find it advantageous to plan ahead in locating their directors throughout the 80s and into the 90s.

More Time, More Compensation

Time demands continue to be a major concern in the recruitment of top quality directors. Some progress has been made in reducing the average number of meetings from four to three for audit committees and from six to four for executive committees. But, the average number of hours spent on board matters climbed an additional two hours in 1983, and the upper quartile reported spending a full 196 hours, or nearly five 40-hour weeks per year, on board duties.

In return, corporations are rewarding their directors through increasing compensation which parallels the growth of time demands (see chart on page 6). Compensation reached a new high, with a few companies reporting annual fees of $75,000 or over, although the average 1983 increase was a modest 6.5 percent, possibly reflecting the belt-tightening brought on by the recession.

Director Preference for Perks

A much stronger interest in perks has emerged. There is a notable rise in deferral of board fees, as well as accident insurance, matching educational gifts, travel expenses for spouse and life insurance, especially in the billion dollar corporations who lead the way in establishing compensation patterns.

Stock options, however, remain controversial, with 77.8 percent of the respondents opposed to them, 12.6 percent undecided and only 4.8 percent favor their use.

It may well be time for a reappraisal of stock options for directors. If options are an effective motivation and reward mechanism for senior management, why are they so infrequently in use for board members? The seeming bias against options appears to be based on premises rooted in the past. Interestingly, 24 percent of the few who favor stock options are companies with revenues under $400 million. Undoubtedly, these companies must find options an effective means to attract qualified directors. In coming years, however, it is a form of compensation which companies of all sizes may well reconsider.

Realigning for the Future

For those companies that have been able to find and attract the kind of directors they need, boards have emerged as a powerful and beneficial force. In fact, the board is becoming exactly the kind of governing body which best fits the needs of the corporation of the 80s—a corporation with a flatter and leaner structure and three primary levels: the board; the office of the chairman, president and senior management; and divisional heads. This new structure brings the board closer to overall company strategies, objectives and operating results in order to perform its primary function of monitoring overall operations. It is a configuration which should permit U.S. industry to react quickly and to compete more effectively in today's highly volatile international markets, to adapt to the fast pace of technological development and to maintain a level of high productivity—and excellence.

Lester B. Korn

Richard M. Ferry

SUMMARY OF FINDINGS

On a question-by-question basis, the following are key findings of the Korn/Ferry International Eleventh Annual Board of Directors Study.

1. Size of Board (Table 1)

Corporate boards, on the average, are composed of 13 directors, a number which has remained steady since the study was launched 11 years ago. However, board size does vary in direct correlation to company size.

Small companies with revenues under $200 million have an average of nine directors. This number increases to an average of 16 directors for the largest companies with revenues of $5 billion or more. Banks have the largest boards, averaging 19 members.

2. Inside Directors vs. Outside Directors (Tables 1 and 2)

For the sixth consecutive year, the responding corporate boards have an average of four inside directors and nine outside directors (Table 1).

Respondents continue to prefer that outside directors fill a majority of board seats. This year, 81 percent state such a preference, a number which has steadily increased since 1976 (the first year this question was asked), when 62 percent indicated they prefer that more than half of their directors come from outside the company (Table 2). Banks (93 percent) and insurance companies (91 percent) express the strongest preference for outside-director dominance. And in the case of banks and other financial companies, 64 percent prefer that outside directors make up a minimum of 75 percent of their boards.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Seventy-seven percent of the respondents to this year's study report that their chairman is also their chief executive officer. This relationship occurs most frequently among banks and other financial companies, 88 percent of whom report this dual function. Forty-three percent of the respondents, primarily the smaller industrials, report that their chief executive officer is also their chief operating officer.

4. Board Composition (Table 4)

This year's study reconfirms that far-reaching changes in the composition of corporate boards have occurred over the past decade, with women, ethnic minorities, former government officials and academicians achieving major gains in representation. Conversely, representation has thinned remarkably among attorneys who provide legal services to the company, commercial bankers, investment bankers, major shareholders who are not officers of the company, and retired or previously employed corporate

officers. This year's top three categories from which directors are drawn are senior executives of other companies (89 percent), retired executives of other companies (70 percent), and academicians (52 percent) (Table 4A).

Moreover, this year's respondents have an average of five senior executives of other companies on their boards, well above the average of two or fewer for all other categories. Corporate experience was cited by 76 percent of this year's participants as the primary consideration for inviting a prospective director to sit on their board.

Women are now on 43 percent of the responding boards, up five percent from last year and up 19 percent over the past five years. Minorities are represented on more than a quarter of the boards, up 12 percent from last year and up 35 percent over five years ago. Once again, women and ethnic directors come primarily from the ranks of senior officers from other companies and academicians (Table 4B). Banks and other financial companies have the highest representation of women and minorities. Women now sit on fully three-quarters of participating financial company boards while minorities are represented on 45 percent. In spite of their increasing acceptance as outside directors, women and minorities are rarely inside directors; they sit on less than three percent of the boards.

Over the past five years, former government officials have become increasingly sought as outside directors. They are now on 30 percent of all respondent boards, up 11 percent from last year and up 30 percent from five years ago. Former government officials sit on nearly half of the billion dollar company boards and on 60 percent of the boards of companies with revenues of $3 billion and over but serve on only seven percent of the smaller company boards (under $200 million).

5. Committees (Table 5)

The most prevalent committees now in use are audit (99 percent), compensation (85 percent) and executive (80 percent). Eleven years ago, only two percent of the respondents reported having a nominating committee. This year, nearly 60 percent have one, up five percent from last year. The trend is correlated to company size. Only 35 percent of the under-$200 million companies report having nominating committees. Eighty-four percent of the largest companies ($5 billion and over) have one. Of those with nominating committees, 58 percent report that the committee participates in board committee appointments and plays a significant role in the management-succession process, along with the compensation and executive committees.

Thirteen percent of the respondents now have public affairs committees, up 29 percent over the past five years. Only six percent of the respondents currently have a corporate ethics committee, down 19 percent during the past five years (Table 5A).

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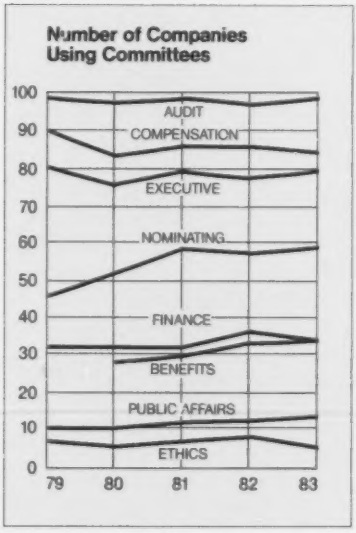
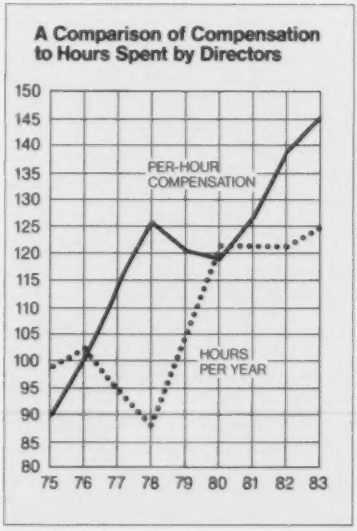
The composition of the various committees (inside directors vs. outside directors) as well as the average number of directors on each has remained constant over the past three years. Committees still have an average of four to six members. Audit and compensation committees are composed entirely of outside directors (Table 5B).

The number of committee meetings per year averages two to four, unchanged from last year. However, the number of meetings for the executive and finance committees dropped from six and seven, respectively, to four each over the last five years (Table 5C).

Although 53 percent of the respondents believe that the amount of time directors devote to committees has remained the same, 45 percent believe it has increased. Only two percent think that it has decreased.



The greatest growth has occurred in the number of companies establishing nominating committees.



Over the past two years, compensation grew faster than time spent on board duties, although both have increased dramatically since the study began.

6. Compensation (Table 6)

The annual plus per-meeting fee continues to be the predominant form of compensation for outside directors, with 85 percent of this year's respondents reporting its use. Financial institutions and insurance companies most frequently use this means of payment (93 percent). Retailers lag behind all other groups, with only 76 percent using the annual plus per-meeting fee.

Retailers lead all respondents in using the annual-fee-only system of compensation (18 percent). Among all respondents, only 13 percent use this method, down almost half from the 25 percent using it in the first study conducted in 1973. Use of the per-meeting fee as the only method of payment has also decreased since 1973 (Table 6A).

Annual Plus Per-Meeting Fee (85 percent of the respondents)

Outside directors earn an average of $18,090 per year among the respondents who use this method of compensation, up from $16,990 last year. Compensation has more than doubled since the inception of this study and has risen 42 percent from the $12,750 average of just five years ago. During this five-year period, the percentage of directors earning under $11,000 per year has decreased dramatically from 45 percent to 16 percent. At the same time, the percentage earning $25,000 and more has increased from four percent to 15 percent. Directors of banks and other financial institutions have made the largest gains over the past five years, up 57 percent from $10,820 to $17,040.

The $18,090 total average annual compensation comprises an average annual fee of $11,700 and an average per-meeting fee of $717, up from an $11,000 annual fee and a $657 per-meeting fee last year (Table 6B).

Not surprisingly, directors of billion dollar corporations earn the highest annual compensation, an average of $22,690, up from $22,040 last year. Directors of the $5 billion-and-over companies earn 54 percent more than the average of all respondents ($27,940 compared with $18,090). That compensation is more than triple the $9,270 earned by directors of the under-$200 million companies.

This year, the upper quartile average for all participants is $28,390, up 57 percent from the $18,100 recorded five years ago (Table 6C). The averages range from $13,510 for industrials under $200 million to $36,510 for companies $5 billion and over. The average for all billion dollar companies is $31,790.

Annual Fee Only (13 percent of the respondents)

The average earnings of outside directors receiving only an annual fee increased 34 percent over the past five years (from $12,000 to $16,100) but remain unchanged from last year (Table 6D). The smaller companies make greater use of this form of payment, although their average compensation is nearly half that of the billion dollar companies ($10,300 compared with $20,400). None of the smaller companies pays over $18,000, while 66 percent of the billion dollar companies pay $18,000 or more.

Per-Meeting Fee Only (Two percent of the respondents)

The 11 respondents in this category report an average per-meeting fee of $514, a 12 percent increase over last year's average of $460.

7. Committee Compensation (Table 7)

Nearly 90 percent of all participants compensate their outside directors additionally for committee service (Table 7A). However, among smaller companies (under $200 million), only 18 percent offer committee compensation.

This year's study reveals a significant change in the way in which companies compensate their outside directors for committee service. The per-meeting fee only continues to be the predominant method of payment, but the percentage of companies paying in this manner is down markedly, from 72 percent last year to 60 percent. The percentage of companies that pays an annual plus per-meeting fee for committee service is rising, from 21 percent last year to 33 percent this year. Only seven percent pay an annual fee only (Table 7B).

Among the companies that pay a per-meeting fee only, fees for committee members range this year from a low of $510 for the benefits committee to a high of $650 for the finance committee. The overall average of $580 per meeting rose from last year's average of $550. Not surprisingly, fees among the billion dollar companies are higher, ranging from $590 per meeting for benefits committees up to $800 for the finance and executive committees. Committee chairmen generally command higher fees.

For companies that pay an annual plus per-meeting fee for committee service, the average annual fee is $2,990 and the average per-meeting fee is $590. For companies that pay an annual fee only, the overall average is $4,780. Again, committee chairmen average somewhat more.

8. Additional Compensation Information (Table 8)

Forty percent of the participants indicate that they increased outside director compensation during the past year, up slightly from last year. This is significantly lower than the 51 percent who raised fees five years ago. Moreover, the average increase is lower this year, $2,850 compared with $3,170 last year (Table 8A). Banks and other financial institutions lead in raising director fees with 52 percent reporting increases.

The increase rose 33 percent, from $2,210 last year to $2,950 this year. Twenty-six percent project a fee increase for the coming year (Table 8B).

Ninety-one percent of this year's participants believe that outside directors are adequately compensated. Retailers, 97 percent of whom believe that current fees are adequate, seem most content with present director compensation.

Twenty-six percent of all respondents have outside directors who receive special consulting fees.

The highest paid outside directors average $23,100 this year for all board services exclusive of any consulting arrangements, a six percent increase over last year's average of $21,720 and 38 percent more than the $16,800 five years ago. Twenty-six percent of the largest companies ($5 billion and over) compensate their highest paid outside directors with payment in excess of $40,000. The upper quartile average, included for comparative purposes, is $39,270, up from $36,550 last year (Table 8C).

This year, 34 percent of the respondents to the study report that their board chairman has primary responsibility for establishing board compensation. Twenty percent state that this is the responsibility of the compensation committee while another 20 percent say that it lies with the entire board (Table 8D). Ninety-three percent of the respondents report having a procedure whereby the board annually reviews and establishes appropriate compensation levels for the chief executive officer. Ninety percent report the same procedure for other senior officers.

Corporate boards are increasing benefits. Travel expense reimbursement (provided by 92 percent of the respondents) and directors' liability insurance (provided by 90 percent) are the most widely offered benefits.

The option of deferring board fees until retirement is growing rapidly. This year, 60 percent of the participants offer this option, up from last year's 55 percent and up from two years ago when only 44 percent offered it. Still another six percent indicate their intention of establishing this option. While only 26 percent of the smaller companies (under $200 million) have an income deferral plan, 77 percent of the largest companies ($5 billion and over) report one.

Other frequently offered benefits include accident insurance (48 percent), matching educational gifts programs (44 percent), travel expense reimbursement for spouses (25 percent) and life insurance (20 percent) (Table 8E).

This year, 19 percent of all respondents (27 percent of the billion dollar corporations) offer retirement benefits, up 58 percent over the past two years. Plans vary widely, but all use a formula weighing length of board service and fees at retirement.

9. Board Practices and Policies (Table 9)

Study respondents average eight regular board meetings per year (Table 9A). Billion dollar companies and financial institutions meet most frequently, averaging nine times per year. Fifty-seven percent average at least one board meeting away from their corporate headquarters and nine percent hold at least one of these meetings outside the United States.

Time spent on board-related business increased 19 percent over the past five years, now averaging 125 hours a year including time for review, preparation and travel as well as for meetings. Directors of the under-$200 million companies average only 78 hours per year, while directors of billion dollar companies average 152 hours. Directors of the $5 billion-and-over companies average 167 hours (Table 9B).

If compensated on an annual plus per-meeting fee basis, outside directors earned $145 per hour this year, up from $138 last year. The highest hourly rate, $156 per hour, went to directors of banks and other financial institutions. Insurance companies paid the lowest, $130 per hour.

Almost all the respondents (97 percent) allow CEOs to sit on outside public boards, but 11 percent limit the number, generally to two or three. A much lower percentage (73 percent) of chief operating officers can serve on other boards and still fewer (68 percent) of other key executives may do so. Twelve percent of respondents limit the number of outside directorships for the COO and 15 percent limit the number for their other key executives. Of these respondents with restrictions, 25 percent cite three as the maximum. Thirty-seven percent feel such a limit is not a critical factor.

Seventy-nine percent of respondents have a mandatory retirement age for directors. Only 50 percent of companies with revenues under $200 million have a mandatory retirement age, whereas 87 percent of billion dollar companies, and over 97 percent of $5 billion-and-over companies do. For the eighth consecutive year, the average retirement age for outside directors has remained unchanged at 70. The average retirement age for inside directors is 68, up from 67 last year. Nine percent of respondents state that their mandatory retirement age policy is under review.

10. Locating Outside Directors (Table 10)

Thirty-seven percent of respondents had outside directors resign from their boards during the past year. Retirement (cited by 65 percent) continues to be the major reason. Other frequently named factors include potential conflict of interest (13 percent) and time demands (12 percent).

Forty-seven percent of the respondents added one or more new outside directors to their boards during the past year. Twenty-three percent added new inside directors (Table 10A).

Board vacancies continue to be predominantly filled through recommendations by the chairman (76 percent) and by other board members (72 percent). This year, 53 percent of the respondents used the nominating committee to identify and select new directors, up from 46 percent five years ago. That percentage rises to 67 percent among the billion dollar corporations.

Recommendations from other corporate officers (37 percent) and referrals from other executive acquaintances (ten percent) declined 32 percent and 61 percent respectively over the past five years. Use of executive search firms increased again this year to ten percent, up 22 percent over the past five years. The largest companies are the most likely to use executive search firms. Thirty-two percent of the $5 billion-and-over companies now use them (Table 10B).

Corporate experience (cited by 76 percent of the respondents) is the most important consideration in selecting prospective directors. Specific industry experience (cited by 48 percent), functional experience (46 percent) and prestige (13 percent) are other primary qualities sought in prospective directors (Table 10C). Fully employed executives are preferred by 56 percent of respondents when selecting outside directors. Less than two percent prefer executives who are not working full time.

Sixteen percent of this year's respondents state that board candidates declined to serve on their boards, down somewhat from last year. Retailers experienced the most refusals, with 33 percent declining to serve, more than twice the overall average.

Time commitment is the most prevalent reason among all respondents for refusals (cited by 70 percent), followed by serving on too many boards (22 percent) and conflict of interest (20 percent) (Table 10D).

Forty percent of all respondents expect a board vacancy this year.

11. Board Issues (Table 11)

When asked to rank the relative importance of various issues facing corporate boards today, participants rate financial results highest. Forty-four percent cite it as the most important issue, double the number citing strategic planning, the second-highest rated issue. The other most significant issues include financing/capitalization (ranked as first, second or third by 31 percent), day-to-day operations (29 percent), managerial succession (23 percent) and mergers/acquisitions (18 percent) (Table 11). When participants were asked to project the ranking of these issues five years from now, day-to-day operations decreased in importance and managerial succession increased.

Financial results occupied the most board time of all issues, an estimated 25 percent. Day-to-day operations took 16 percent of board meeting time and strategic planning followed with 15 percent.

12. Participating Companies

- Size of Participating Companies (Table 12A)
- Stock Exchange of Participating Companies (Table 12B)
- Type of Participating Companies (Table 12C)

TABLE 1—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Type and Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Industrials			
Under $200 million	3	6	9
$200 million-$399 million	3	7	10
$400 million-$599 million	3	7	10
$600 million-$999 million	4	7	11
$1 billion-$2.999 billion	4	8	12
$3 billion-$4.999 billion	4	11	15
$5 billion and over	5	11	16
Banks and other financial institutions	4	15	19
Insurance companies	3	12	15
Retailers	5	8	13
Average	4	9	13

TABLE 2—OUTSIDE DIRECTORS ON THE BOARD

What is the minimum percentage of outside directors preferred?

Minimum %	% 1976*	% 1979	% 1983
25% and under	7.6%	5.6%	3.2%
26%-50%	21.6%	18.1%	10.8%
51%-75%	37.6%	41.7%	44.4%
76% and over	24.0%	31.0%	37.0%
No response	9.2%	3.6%	4.6%
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

*First year question asked

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	76.5%	42.6%
No	22.5%	56.1%
No response	1.0%	1.3%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	% 1979	% 1982	% 1983
Senior executive (other companies)	88.4%	88.2%	89.4%
Retired or previously employed corporate officer	55.8%	46.8%	46.9%
Commercial banker	43.1%	33.6%	33.2%
Attorney (provides legal services to the company)	35.1%	28.2%	30.2%
Academician	51.6%	50.4%	51.7%
Investment banker	28.3%	23.7%	22.9%
Major shareholder (not officer of the company)	32.2%	30.4%	30.4%
Attorney (does not provide legal services to the company)	32.1%	33.7%	34.3%
Former government official	23.2%	27.2%	30.2%
Female	36.4%	41.2%	43.4%
Ethnic minority member	19.2%	23.2%	25.9%
Non-U.S. citizen	16.7%	17.0%	15.4%
International executive (American)	11.4%	7.5%	8.1%
"Professional" director	N.A.	19.5%	18.2%
Retired executive (other companies)	N.A.	66.3%	70.0%

└— FIVE-YEAR TREND —┘

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Senior executives (other company)	26.7%	30.1%
Academicians	24.4%	25.0%
Former government officials	12.6%	12.8%
Attorneys (do not provide legal services)	8.8%	17.9%
Major shareholders (not officers of the company)	9.5%	1.3%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	% 1979	% 1982	% 1983
Audit	98.9%	98.2%	99.2%
Compensation	90.2%	86.3%	84.6%
Executive	80.8%	78.4%	80.4%
Nominating	46.7%	56.6%	59.4%
Benefits	N.A.	32.9%	34.5%
Finance	31.9%	35.7%	34.3%
Public affairs	9.8%	11.8%	12.6%
Corporate ethics	7.2%	8.0%	5.8%

FIVE-YEAR TREND

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	3	3	6
Nominating	1	4	5
Benefits	1	3	4
Finance	2	4	6
Public affairs	1	4	5
Corporate ethics	1	4	5

5C. How many committee meetings were held during the past 12 months?

Committee	1979 Average Number Of Meetings	1983 Average Number Of Meetings
Audit	4	3
Compensation	4	4
Executive	6	4
Nominating	2	2
Benefits	3	3
Finance	7	4
Public affairs	3	3
Corporate ethics	2	2

FIVE-YEAR TREND

TABLE 6—COMPENSATION

6A. How are board members compensated?

Compensation	% 1979	% 1982	% 1983
Annual plus per-meeting fee (see Table 6B and Table 6C for amounts)	80.1%	84.8%	84.5%
Annual fee only (see Table 6D for amounts)	14.6%	11.8%	12.8%
Per-meeting fee only	5.1%	2.5%	1.7%
No response	0.2%	0.9%	1.0%
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

6B. Annual Plus Per-Meeting Fee

Annual Fee Amount	% 1979	% 1982	%1983
Under $5,000	20.6%	7.7%	4.9%
$5,000-$6,999	22.2%	14.1%	10.2%
$7,000-$10,999	35.7%	28.8%	30.4%
$11,000-13,999	14.0%	18.9%	18.2%
$14,000 and over	7.5%	29.5%	35.7%
Unspecified	—	1.0%	0.6%
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

1983 Average Annual Fee $11,700

PLUS

Amount Per Meeting	% 1979	% 1982	% 1983
Under $250	4.1%	1.9%	2.4%
$250-$449	33.5%	15.1%	11.6%
$450-$599	40.0%	33.4%	34.3%
$600-$799	14.5%	31.9%	30.0%
$800 and over	7.4%	16.6%	21.0%
Unspecified	0.5%	1.1%	0.7%
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

1983 Average Per-Meeting Fee $717

COMPENSATION (continued)

EQUALS

Total Average Annual Compensation	% 1979	% 1982	%1983
Under $7,000	15.0%	5.5%	2.2%
$7,000-$10,999	29.6%	15.7%	13.6%
$11,000-$13,999	19.5%	16.3%	15.1%
$14,000-$16,999	15.2%	16.9%	18.9%
$17,000-$19,999	9.0%	14.5%	14.9%
$20,000-$24,999	8.1%	20.0%	20.6%
$25,000 and over	3.6%	11.1%	14.7%
TOTAL	100.0%	100.0%	100.0%
Average	$12,750	$16,990	$18,090

└ FIVE-YEAR TREND ┘

6C. Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Industrials		
Under $200 million	$ 9,270	$13,510
$200 million-$399 million	$14,680	$21,280
$400 million-$599 million	$16,740	$28,940
$600 million-$999 million	$16,780	$24,260
$1 billion-$2.999 billion	$19,490	$26,810
$3 billion-$4.999 billion	$23,840	$33,030
$5 billion and over	$27,940	$36,510
Banks and other financial institutions	$17,040	$25,930
Insurance companies	$15,050	$24,520
Retailers	$19,120	$27,500
Average	$18,090	$28,390

6D. Annual Fee Only

Annual Fee Amount	% 1979	% 1982	% 1983
Under $7,000	19.7%	12.5%	5.1%
$7,000-$9,999	13.6%	12.5%	11.5%
$10,000-$11,999	13.6%	8.3%	15.4%
$12,000-$13,999	17.3%	18.1%	5.1%
$14,000-$15,999	17.3%	11.1%	15.4%
$16,000-$19,999	11.1%	8.4%	15.4%
$20,000 and over	7.4%	29.1%	32.1%
TOTAL	100.0%	100.0%	100.0%
Average	$12,000	$16,100	$16,100

└ FIVE-YEAR TREND ┘

TABLE 7—COMMITTEE COMPENSATION

7A. Are outside directors paid an extra fee for serving on a committee?

	% 1979	% 1983
Yes	86.8%	89.4%
No	10.9%	9.6%
No response	2.3%	1.0%
TOTAL	100.0%	100.0%

FIVE-YEAR TREND

7B. If yes, how are they compensated?

	% 1982	% 1983
Per-meeting fee only	72.0%	59.7%
Annual plus per-meeting fee	21.4%	32.5%
Annual fee only	6.6%	7.4%
No response	—	0.4%
TOTAL	100.0%	100.0%

TABLE 8—ADDITIONAL COMPENSATION INFORMATION

8A. Has board compensation been raised within the last 12 months?

	% 1983
Yes	39.8%
No	59.7%
No response	0.5%
TOTAL	100.0%

If yes, by how much?

Type and Size of Company	1982 Increase	1983 Increase
Industrials		
Under $200 million	$1,760	$1,390
$200 million-$399 million	$2,030	$2,100
$400 million-$599 million	$2,260	$2,430
$600 million-$999 million	$2,580	$2,640
$1 billion-$2.999 billion	$3,110	$3,540
$3 billion-$4.999 billion	$2,860	$3,030
$5 billion and over	$5,820	$3,340
Banks and other financial institutions	$4,410	$3,000
Insurance companies	$2,750	$2,500
Retailers	$2,560	$3,333
Average	$3,170	$2,850

8B. Do you contemplate raising board compensation in the next year?

	% 1983
Yes	25.5%
No	71.7%
No response	2.8%
TOTAL	100.0%

If yes, by how much?

Type and Size of Company	1983 Average Amount of Projected Increase
Industrials	
Under $200 million	$1,500
$200 million-$399 million	$1,580
$400 million-$599 million	$2,880
$600 million-$999 million	$3,700
$1 billion-$2.999 billion	$2,910
$3 billion-$4.999 billion	$2,750
$5 billion and over	$4,640
Banks and other financial institutions	$3,290
Insurance companies	$2,360
Retailers	$4,390
Average	$2,950

8C. How much did the highest paid outside director receive in 1983 for all board service activities exclusive of any consulting fees?

Type and Size of Company	1979 Average Compensation	1983 Average Compensation	1983 Upper Quartile Average
Industrials			
Under $200 million	$10,200	$11,640	$18,910
$200 million-$399 million	$12,370	$16,800	$22,420
$400 million-$599 million	$13,920	$17,440	$26,580
$600 million-$999 million	$14,900	$20,590	$31,100
$1 billion-$2.999 billion	$23,160	$25,780	$38,220
$3 billion-$4.999 billion	$22,530	$31,890	$43,170
$5 billion and over	$26,600	$35,770	$54,250
Banks and other financial institutions	$17,290	$23,980	$37,460
Insurance companies	$16,830	$22,100	$42,880
Retailers	$13,750	$23,050	$42,180
Average	$16,800	$23,100	$39,270

FIVE-YEAR TREND

8D. Who is primarily responsible for establishing board compensation?

	%
Chairman	34.2%
Compensation committee	19.9%
Entire board	20.2%
Combination of above	28.9%

8E. What benefits are included in the compensation plan for outside directors?

	% 1982	% 1983
Travel expense reimbursement	86.4%	92.4%
Directors' liability insurance	85.6%	90.0%
Deferral of board fees until retirement	55.3%	60.2%
Accident insurance	43.4%	48.3%
Matching educational gifts program	40.1%	44.3%
Travel expenses for spouse	23.7%	25.4%
Life insurance	18.8%	20.1%
Retirement income plan	14.4%	18.7%
Stock options	N.A.	1.5%

TABLE 9—BOARD PRACTICES AND POLICIES

9A. How many regular board meetings are held during the fiscal year?

Meetings Per Year	%
Under 5	18.2%
5-6	29.2%
7-9	18.7%
10-12	31.8%
13 and over	1.8%
No response	0.3%
TOTAL	100.0%
Average	8 meetings

9B. How many hours (estimated) do directors spend annually on board matters, including review, preparation, meetings and travel?

Number of Hours	% 1979	% 1983
Under 40	10.3%	6.1%
40 to 70	27.5%	18.4%
71 to 100	25.4%	23.1%
101 to 130	9.8%	12.8%
131 to 160	4.5%	11.3%
161 to 190	1.6%	5.3%
191 and over	5.7%	10.3%
No response	15.2%	12.7%
TOTAL	100.0%	100.0%
Average	105 hours	125 hours

FIVE-YEAR TREND

Hours (continued)

Type and Size of Company	Average Number of Hours	Upper Quartile Average
Industrials		
Under $200 million	78	124
$200 million-$399 million	115	177
$400 million-$599 million	94	163
$600 million-$999 million	124	189
$1 billion-$2.999 billion	150	203
$3 billion-$4.999 billion	138	193
$5 billion and over	167	236
Banks and other financial institutions	109	195
Insurance companies	116	193
Retailers	130	181
Average	125	194

TABLE 10—LOCATING OUTSIDE DIRECTORS

10A. How many new directors were added during the past year?

Number Added	% Inside Directors	% Outside Directors
None	53.9%	43.6%
One	16.9%	27.9%
Two	4.3%	13.1%
Three or more	1.5%	5.5%
No response	23.4%	9.9%
TOTAL	100.0%	100.0%

10B. How are outside directors located for the board?

	% 1979	% 1983
Recommendation of chairman	77.7%	76.0%
Recommendation of board members	79.7%	71.5%
Nominating committee	46.4%	53.1%
Recommendation of other corporate officers	53.8%	36.7%
Referral from executive acquaintances	24.3%	9.5%
Executive search	7.8%	9.5%

FIVE-YEAR TREND

10C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate experience	76.3%
Specific functional experience	46.1%
Specific industry experience	48.4%
Prestige	12.8%

10D. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1982	% 1983
Yes	18.1%	15.8%
No	78.7%	82.6%
No response	3.2%	1.6%
TOTAL	100.0%	100.0%

If yes, what are the predominant reasons?

	% 1982	% 1983
Time commitment	70.0%	69.5%
On too many boards	30.9%	22.1%
Conflict of interest	21.8%	20.0%

TABLE 11—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	44.1%	64.2%	74.5%
Strategic planning	21.7%	44.3%	61.7%
Financing/Capitalization	2.7%	13.3%	31.2%
Day-to-day operations	10.1%	21.2%	28.5%
Managerial succession	6.5%	14.0%	23.0%
Mergers/Acquisitions	0.8%	6.9%	18.3%
Corporate ethics	1.7%	4.2%	6.7%
Shareholder relations	0.3%	1.1%	4.4%
Multinational issues	0.3%	2.1%	5.1%
Government relations	0.2%	1.7%	3.5%
Public relations	0.2%	0.9%	1.6%
Board compensation	0.2%	0.9%	1.6%

TABLE 12—PARTICIPATING COMPANIES

12A. Size of Participating Companies

	No. of Companies	%
Industrials		
Under $200 million	46	7.6%
$200 million-$399 million	74	12.3%
$400 million-$599 million	49	8.0%
$600 million-$999 million	59	9.8%
$1 billion-$2.999 billion	112	18.6%
$3 billion-$4.999 billion	46	7.6%
$5 billion and over	57	9.5%
Banks and other financial institutions	73	12.1%
Insurance companies	54	9.0%
Retailers	33	5.5%
TOTAL	603	100.0%

12B. Stock Exchange of Participating Companies

	%
New York Stock Exchange	71.1%
American Stock Exchange	4.6%
Over-the-counter	13.9%
Other (private, mutual)	9.0%
No response	1.4%
TOTAL	100.0%

12C. Type of Participating Companies*

	%
Industrial	73.4%
Banking and other financial	12.1%
Insurance	9.0%
Retail	5.5%
TOTAL	100.0%

** This year, 1,000 companies were asked to participate. There were 603 responses available for tabulation at our deadline. The companies asked to participate included the Fortune 500, the Fortune 100 major service companies (included in our Industrial classification), the Fortune 50 major banking institutions, 50 major insurance companies, 50 major diversified financial companies, 50 major retailers, 50 major transportation companies and 150 selected smaller companies.*

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